



Agenda Item 8-5

Finance Options Report

Overview

- Introductions
- Reasons for the Report
- Participants
- Process and Schedule
- Developing Finance Options
- New State Administered Fee Options
- David Dowall & Ad Hoc Member comments

Highlights

The background of the slide features a light blue, wavy, abstract shape that flows from the top left towards the bottom right, creating a sense of movement and depth.

The Challenge

Take a very **complex** topic with great **uncertainty** and high political **sensitivity**...

AND

Generate **options** that can provide information and guidance to decision-makers regarding **funding priorities**
(in 6 months)

Why Do a Finance Options Report?

- Status quo approach to relying on state funding unlikely in the future
- Existing funding gone after 2006-7
- Water user fee Budget Act requirement
- Benefits-based financing principle in ROD
- Coordinate financing among Program Elements

What this Report Does (and Doesn't Do)

It Doesn't:

- Recommend finance formulas or allocations
- Optimize Program design
- Resolve short-term funding gaps
- Critique/Propose changes to historical pricing structures

What this Report Does (and Doesn't Do)

It Does:

- Build an understanding of Program costs and benefits
- Provide reasonable and instructive finance options
- Provides tools to assist decision-makers

Process & Participants

- Technical Team
 - Consultants & BDA staff develop Finance Options Report
- Ad Hoc work group
 - 18 member work group (stakeholders, legislative reps, & agency managers) reviews report and serves as sounding board for Technical Team and provides input to Panel
- Independent Review Panel
 - 8 member panel made up of academics and practitioners who are experts in public financing provide advice on finance analysis and reasonableness of finance options

Participants

Independent Review Panel

- David Abel, President, Abel & Associates
- David Dowall, Professor, U.C. Berkeley
- Frederick Furlong, Federal Reserve Board
- Michael Hanemann, Professor, U.C. Berkeley
- Wendy Illingworth, Consultant, Economic Insights
- Dean Mischynski, Director, California Research Bureau
- Daniel Sumner, Professor, U.C. Davis
- Dennis Wichelns, Professor, C.S.U. Fresno

Participants

Ad Hoc Stakeholder and Agency Work Group

- Jerry Meral, Planning and Conservation League Foundation
- Barry Nelson, Natural Resources Defense Council
- Frances Spivy-Weber, Mono Lake Committee
- Steve Hall, Assoc. of CA Water Agencies
- Brent Walthall, Kern County Water Agency
- Lowell Ploss, SJR Group Authority
- Dan Nelson SLDMWA
- Don Bransford, GCID
- Greg Gartrell, Contra Costa Water Agency
- Joe Grindstaff, Santa Ana Watershed Project Authority

Participants

Ad Hoc Stakeholder and Agency Work Group

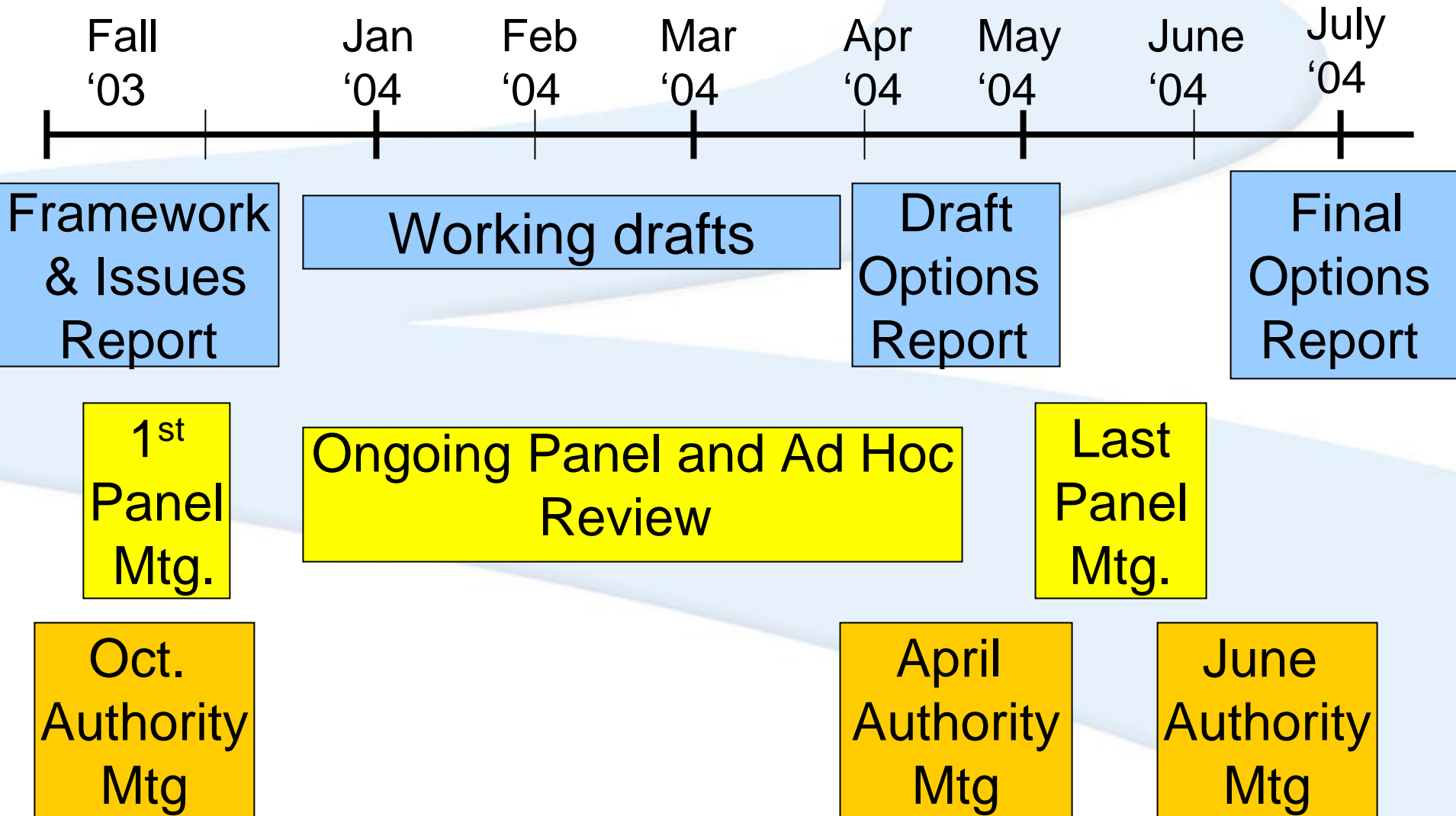
- Tim Quinn, MWD
- Doug Wallace, EBMUD
- Robert Meacher, Plumas County Supervisor, RCRC
- Jerry Toenyes, Northern California Power Agency
- Tom Zuckerman, Delta landowner
- Mark Cowin, Department of Water Resources
- Tina Cannon, Department of Fish and Game
- Mark Newton, Legislative Analyst's Office

Process / Participants

Additional Stakeholder Involvement

- Peter Yolles, The Nature Conservancy
- David Guy, Northern CA Water Authority
- Leslie Friedman-Johnson
- Ann Hayden, Environmental Defense Fund
- Lynn Hurley, Santa Clara Valley WD

Process & Schedule



Public Outreach

- Ad Hoc Work Group Jan - July
- BDA April & June
- BDPAC May
- BDPAC Subcomm. May - June
- Legislature April - July

Developing Finance Options

Guiding Principles:

- Support CALFED solution principles
- Follow benefits-based approach
- Promote cost allocations that encourage participation
- Encourage efficient allocation of resources

Developing Finance Options

1. What will it cost?
2. What are the benefits?
3. Who are the beneficiaries?
4. How should costs be allocated?
5. What are the finance tools?

What will it cost?

- Cost estimates– 2006-2030
- Relied on current program description
 - e.g. Storage operational scenarios
- Excluded highly uncertain programs & projects
 - e.g. Clifton-Court fish screens/10,300 cfs export capacity

What will it cost?

Program Element	Ann. Avg (Mil.\$)		2006-2030 (Mil.\$)	
	Low	High	Low	High
Conveyance	21	36	525	900
Ecosystem Restoration	150	240	3,750	6,000
Environmental Water Account	30	30	750	750
Drinking Water Quality	21	56	525	1,400
Levees	41	74	1,025	1,850
Storage (No double counting w/ EWA & ERP)	87	167	2,175	4,175
Watersheds	10	40	250	1,000
WUE (Mostly local; public \$40-\$50 Mil./yr)	170	380	4,250	9,500
Science	13	23	325	575
Oversight	15	26	375	650
Total	\$558	\$1,072	\$13,950	\$26,800

What are the Benefits?

- Water supply (yield & reliability)
- Drinking Water Quality
- Ecosystem Improvement
- Flood Protection
- Hydropower
- Recreation

What are the Benefits?

Measuring “economic” benefits

- More Easily Measured: Water supply, water quality and flood protection
- More Difficult to Measure: ecosystem improvements

What are the Benefits?

Describe Physical Changes

Measure Physical Changes

Describe Economic Value

Measure Economic Value



ERP



Recycling

What are the Benefits?

Element	Now	Likely - Near Term	Maybe-Long Term
Conveyance	X (Supply & DWQ)	X (Flood Protection)	X (Ecosystem)
ERP			X
EWA		X (Supply)	X (Ecosystem)
DWQ			X
Levees	X (Flood Protection)	X (Supply, DWQ, Recr)	
Storage		X (Supply, DWQ, Flood, Hydro, Recr)	X (Ecosystem)
Watersheds			X
WUE	X (Supply)		X (Ecosystem)

Who are the Beneficiaries?

Public:	--State & Federal Taxpayers
Water Users:	--Delta Exporters (SWP, CVP) --All other Bay-Delta System Diverters
Local	--Local agencies, local landowners, local grant matching
Recreation	--Fishing, boating
Commercial Fishing	
Hydropower	

How should costs be allocated?

Ignore Incidental Beneficiaries:

- When a beneficiary groups' benefits are small and uncertain

Examples: ERP / commercial fishing

DWQ / agricultural water users

How should costs be allocated?

Cost Allocation Examples

- Reasonable and instructive examples
- Two or more for each element
- No recommendations/ No requirements

How should costs be allocated?

- Follow benefits-based wherever possible
- Or use other allocation methods
 - Status quo
 - ROD
 - Divergent points of view (baseline)

How should costs be allocated?

Beneficiary	Public Funding Emphasis		User Funding Emphasis	
	%	\$	%	\$
General Public CA Taxpayers U.S. Taxpayers				
	Higher		Lower	
Bay-Delta Resource Users CVP SWP Other Water Users Recreation Comm. Fishing Local				
	Lower		Higher	
Total				

What are the Finance Tools?

- When is Debt Financing appropriate?
 - State funded capital costs
- When is Pay-as-You-Go appropriate?
 - Annual operating, maintenance, admin costs
 - Federal funded capital costs

Finance Tools

Option	Advantages	Disadvantages
State General Obligation Bonds	<ul style="list-style-type: none">-Provides big up-front funding-Spreads cost among future generations	<ul style="list-style-type: none">-Can be limited to infrastructure-Requires leg. &/or voter approval-Interest costs raises total cost-Competes with other state priorities
Self-liquidating General Obligation Bonds	<ul style="list-style-type: none">-Provides big up-front funding-Spreads cost among future generations-Not dependent on State GF	<ul style="list-style-type: none">-Can be limited to infrastructure-Requires leg & /or voter approval-Requires repayment agreements by beneficiaries
State Agency Revenue Bonds	<ul style="list-style-type: none">-Rely on existing voter /leg authorization-Spreads costs among future generations-Not dependent on State GF-Available for SWP allocations	<ul style="list-style-type: none">-Can be limited to infrastructure-May be limited to SWP

Finance Tools

Option	Advantages	Disadvantages
Joint Powers Authority (JPA) Revenue Bonds	<ul style="list-style-type: none"> -Provides form of debt financing to non CVP /SWP contractors -Spreads cost among future generations 	<ul style="list-style-type: none"> -Requires agreement of all entities benefiting from project (note: additional review needed)
Federal Approp. Repayed by CVP	<ul style="list-style-type: none"> -Immediate funding -Allows annual Congressional review -Spreads cost among future generations -Repayment by CVP 	<ul style="list-style-type: none"> -Reduced chance of approval with repeated annual Congressional review
State General Fund Appropriations	<ul style="list-style-type: none"> -Immediate funding -Allows annual legislative review -Avail for broad uses 	<ul style="list-style-type: none"> -More direct burden than bonds -Current State fiscal crisis -Competition w/ other State programs -Needs annual approval
Federal appropriations	<ul style="list-style-type: none"> -Immediate funding -Avail for broad uses -Annual Congressional review 	<ul style="list-style-type: none"> -Competition w/ other fed priorities -Needs annual approval

Finance Tools

Option	Advantages	Disadvantages
State Water Project (SWP) Contractor Charges	<ul style="list-style-type: none">-Immediate funding-Avail for broad uses	<ul style="list-style-type: none">-Requires SWP contractor approval
Central Valley Project (CVP) Contractor Charges	<ul style="list-style-type: none">-Immediate funding-Avail for broad uses	<ul style="list-style-type: none">-Requires CVP contractor approval
Private financing	<ul style="list-style-type: none">-Can be more immediate than public funds-Been used for regional & local problems	<ul style="list-style-type: none">-Is generally focused on local needs
New State Administered Fees	<ul style="list-style-type: none">-Can be used to support broad benefits that are difficult to allocate to individual beneficiaries	<ul style="list-style-type: none">-Requires Leg approval-Likely opposition to new fees- Administrative costs may be high

Possible Fee Options

Options	Potential Annual Revenue (\$ Million)	Allocation Share
Broad-Based Bay-Delta Diversion Fee	\$35-\$120	Water User
Statewide Water Retailer Fee	\$100-\$180	Water User
Statewide Residential Water Utility Fee	\$115	Public or Water User
Delta Boater Fees	\$3	Recreation
Statewide Bottled Water Surcharge	\$46-\$69	Public

What Programs Suited to a Broad-based fee revenue?

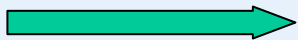
- Ecosystem Restoration
- Environmental Water Account
- Drinking Water Quality
- Delta Levees
- Watershed

Fee Options

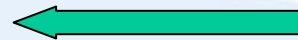
Finance tools

Allocations

**Estimate
potential
revenue**



Priorities



**Identify
potential
needs**

Type of Findings Expected

- What are the expected future costs?
- What programs/projects can we apply a benefits–based allocation?
- What are the priorities for public/user funding?
- What is the potential impact on state, federal and user funding
- Which programs could broaden cost-sharing?

Expected Next Steps

- Identify programs and projects where additional data to quantify benefits is needed and worth the investment
- Revise cost estimates and allocations as programs are further defined and targets updated
- Assist the Bay-Delta Program in optimizing investments

What types of Next Steps?

- Develop accounting system to track benefits related to costs/investments
- Identify local investments that contribute to CALFED objectives
- As appropriate, develop finance recommendations

Participants Comments

- David Dowall, Chair Independent Review Panel
- Ad Hoc Members

Questions